



**CITY OF STRAFFORD, MISSOURI
YEAR ENDED SEPTEMBER 30, 2003**

**From The Office Of State Auditor
Claire McCaskill**

**Report No. 2004-53
June 29, 2004
www.auditor.mo.gov**

AUDIT REPORT



Office Of The
State Auditor Of Missouri
Claire McCaskill

June 2004

The following problems were discovered as a result of an audit conducted by our office of the City of Strafford, Missouri.

Cash receipts totaling \$2,597 that were collected by the City of Strafford Municipal Court from October 1, 2002 thru November 24, 2003, were not deposited. Cash and check amounts recorded on the municipal division's receipt slips did not agree to transmittal spreadsheets prepared by the Court Clerk, or to the actual amounts deposited. Additionally, some checks actually deposited were not recorded and were apparently substituted for the missing cash receipts, including two checks dated December 2002. In other instances, some checks deposited were not recorded on the transmittal spreadsheet and were never found recorded. These missing funds were not detected on a timely basis due to various internal control weaknesses including little or no review by someone independent of the Court Clerk, lax cash receipting procedures and no periodic reconciliations of liabilities.

Bank reconciliations were not prepared for the city's seven bank accounts. Unreconcilable differences have continually existed between the various bank account records and the general ledger accounts. Although the independent auditor's engagement letter estimated audit fees of \$5,000 for the year ended September 30, 2002; the city paid over \$20,000, primarily due to the independent auditor's performance of bank reconciliations for the twelve month period which was being audited. The City Clerk was untimely in posting city transactions. An \$80,528 expenditure for the purchase of a police department building made on November 7, 2003 was not posted to the accounting records as of February 11, 2004. Also, the Board of Aldermen did not always receive monthly financial reports, and the city has not designated a City Treasurer. As a result of these weaknesses, there is less assurance that all city monies have been accounted for properly.

Bids were not always solicited by the city in accordance with their own procurement policy. Bids were not solicited or bid documentation was not retained for items including: a touch read meter system, \$67,053; lift station relocation, \$32,704; and a comprehensive plan for future street, water and sewer, and park projects, \$22,050. City ordinance requires all expenditures greater than \$3,000 and less than \$100,000 to be authorized by the City Administrator; however, the position of City Administrator has been vacant since December 31, 2002, and city ordinances have not been updated. Additionally, the city has also spent approximately \$80,000 to implement a new meter reading system which was supposed to be in place by July 2002 which has yet to be implemented.

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YELLOW SHEET

The city does not perform monthly reconciliations of total amounts billed, payments received, and amounts remaining unpaid for its utility system. In addition, daily reports of utility payments received were not always retained, and there is no independent approval of credit adjustments posted to the utility system. The city does not monitor its water usage on a monthly basis. Further, the city has not performed a formal review of the water and sewer rates since 1996.

Also included in the report are recommendations related to restricted revenues, budgets, financial statements, written contracts, board minutes, personnel matters, city ordinances, maintenance department, property records, and seized property.

All reports are available on our website: www.auditor.mo.gov

CITY OF STRAFFORD, MISSOURI

TABLE OF CONTENTS

	<u>Page</u>
STATE AUDITOR'S REPORT	1-3
MANAGEMENT ADVISORY REPORT - STATE AUDITOR'S FINDINGS	4-26
<u>Number</u>	<u>Description</u>
1.	Missing Funds-Municipal Court.....5
2.	Municipal Court Accounting Controls and Procedures6
3.	City Accounting Controls and Procedures.....8
4.	Utility System Controls and Procedures10
5.	Expenditures13
6.	Restricted Revenues.....17
7.	Budgeting and Published Financial Statements18
8.	Board Minutes.....20
9.	Personnel Policies and Procedures.....21
10.	Ordinances22
11.	Evidence and Seized Property Controls and Procedures24
12.	Maintenance Department Controls25
13.	Property Records.....26
HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION.....	27-30

STATE AUDITOR'S REPORT



CLAIRE C. McCASKILL
Missouri State Auditor

To the Honorable Mayor
and
Members of the Board of Alderman
City of Strafford, Missouri

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of Strafford, Missouri. The city engaged McCullough, Officer, and Company, LLC., Certified Public Accountants (CPAs) to audit the city for the year ended September 30, 2003. To minimize duplication of effort, we reviewed the report and substantiating working papers of the CPA firm. The scope of our audit of the city included, but was not necessarily limited to, the year ended September 30, 2003. The objectives of this audit were to:

1. Perform procedures to evaluate the petitioners' concerns.
2. Review internal controls over significant management and financial functions.
3. Review compliance with certain legal provisions.

To accomplish these objectives, we reviewed minutes of meetings, written policies, financial records, and other pertinent documents; interviewed various personnel of the city, as well as certain external parties; and tested selected transactions. Our methodology included, but was not necessarily limited to, the following:

1. We obtained an understanding of petitioner concerns and performed various procedures to determine their validity and significance.
2. We obtained an understanding of internal controls significant to the audit objectives and considered whether specific controls have been properly designed and placed in operation. However, providing an opinion on internal controls was not an objective of our audit and accordingly, we do not express such an opinion.
3. We obtained an understanding of legal provisions significant to the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, grant agreement, or other legal provisions could occur.

Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting significant instances of noncompliance with the provisions. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the city's management and was not subjected to the procedures applied in the audit of the city.

The accompanying Management Advisory Report presents our findings arising from our audit of the City of Strafford, Missouri.

A handwritten signature in black ink, reading "Claire McCaskill". The signature is fluid and cursive, with the first name "Claire" and last name "McCaskill" clearly distinguishable.

Claire McCaskill
State Auditor

April 19, 2004 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Thomas J. Kremer, CPA
Audit Manager:	Pamela Allison Crawford, CPA
In-Charge Auditor:	Ted Fugitt, CPA

MANAGEMENT ADVISORY REPORT –
STATE AUDITOR'S FINDINGS

CITY OF STRAFFORD, MISSOURI
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

1.	Missing Funds-Municipal Court
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Cash receipts totaling \$2,597 that were collected by the City of Strafford Municipal Court from October 1, 2002 thru November 24, 2003, were not deposited.

The municipal court accepts cash, checks, and money orders for payment of fines, court costs, and bonds. The Court Clerk issues prenumbered manual one-write receipt slips for monies received (by cash or check received) and periodically transmits court monies to the City Clerk. For each transmittal, the Court Clerk prepares the deposit slip and a transmittal spreadsheet showing each individual receipt (by cash or check received) making up the deposit. The following table shows, by individual transmittal, the amount of cash receipts that were not deposited:

Transmittal date	Cash recorded on one-write	Cash recorded on transmittal spreadsheet and deposited	Unaccounted for cash
October 28, 2002	\$ 297.50	\$ 170.00	\$ 127.50
November 8, 2002	731.00	628.50	102.50
December 9, 2002	880.00	190.00	690.00
January 16, 2003	877.50	782.50	95.00
February 26, 2003	351.00	291.00	60.00
September 30, 2003	1096.50	744.00	352.50
September 30, 2003	286.00	188.50	97.50
October 27, 2003	1012.50	600.00	412.50
October 28, 2003	1079.00	946.50	132.50
November 24, 2003	723.00	645.00	78.00
November 24, 2003	507.50	58.50	449.00
Total	<u>7,841.50</u>	<u>5,244.50</u>	<u>2,597.00</u>

Cash and check amounts recorded on the one-write receipt slips did not agree to the cash and check amounts shown on the transmittal spreadsheets prepared by the Court Clerk or to amounts deposited. Additionally, some checks actually deposited were not recorded on the one-write receipt slips and were apparently substituted for the missing cash receipts. For example, two checks, (for \$185 and \$105) included in the October 27, 2003 transmittal were from the Greene County Associate Circuit Division. These checks dated in December 2002 were never found recorded on the one-write receipt slips. In other instances, some checks deposited were not recorded on the transmittal spreadsheet and were never found recorded on the one-write receipt slips. Had anyone compared the one-write receipt slips to the information recorded on the transmittal spreadsheet and applicable deposit, these discrepancies may have been detected.

These missing funds were not detected on a timely basis due to various internal control weaknesses including little or no review by someone independent of the Court Clerk.

WE RECOMMEND the Board of Aldermen take the necessary action to recover the missing funds and work with law enforcement officials regarding any criminal prosecution.

AUDITEE'S RESPONSE

The Board of Alderman indicated:

The city will cooperate fully with all law enforcement officials regarding any criminal prosecution initiated by the Greene County Prosecutor's Office. Unless the State Auditor recommends that the filing of a civil action by the city would be a prudent course of action, the city will not file such an action, and will rely upon law enforcement officials for the recovery of any money, which has been misappropriated.

AUDITOR'S COMMENT

The city may wish to consider reviewing its bond coverage as a prudent course of action.

2. Municipal Court Accounting Controls and Procedures
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Many significant problems were identified in the control procedures used by the municipal court to account for court receipts, including the lack of proper segregation of duties or an independent review of accounting records. Receipts were not always transmitted/deposited intact on a timely basis, original copies of voided receipt slips were not always retained, and checks and money orders were not restrictively endorsed until deposits were prepared. Monthly listings of open items (liabilities) were also not prepared, and the court does not file a monthly report of all cases heard with the city. Given the court processes approximately \$114,000 annually, overall controls need improvement.

- A. The duties of receiving, recording, and transmitting monies collected by the municipal court are not adequately segregated. The Court Clerk performs all of these duties. The Municipal Judge indicated that each month she signs off on each page of the Court Clerk's manual one-write receipt book, but does not compare the individual receipts recorded there to the transmittal spreadsheet. In addition, the City Clerk does not compare the method of payment recorded on the court's one-write receipt slips to the composition of receipts recorded on the transmittal spreadsheet or to the actual composition of amounts deposited.

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that all transactions are accounted for properly and assets are adequately safeguarded. Since this is currently an office of one employee and proper segregation of duties cannot be achieved, at a minimum, there should be a documented independent comparison of the composition of

receipt slips issued to composition of amounts transmitted and deposited. Any unusual items or discrepancies should be investigated.

- B. The court's cash receipt procedures need improvement. For example:
1. Receipts are not always transmitted/deposited intact or on a timely basis. Transmittals were usually prepared after completing a page of one-write receipts and averaged about two per month. In one example, \$7,225 transmitted to the City Clerk on November 24, 2003, included receipts dated in October 2003 and represented three pages of one-write receipts. To adequately safeguard receipts and reduce the risk of loss or misuse of funds, transmittals should be made intact daily or when accumulated receipts exceed \$100.
 2. The original copies of voided receipt slips are not always retained. To properly account for all receipts, copies of voided receipt slips should be properly defaced and maintained.
 3. Checks and money orders are not restrictively endorsed until deposits are prepared. To reduce the risk of loss or misuse of funds, checks and money orders should be restrictively endorsed immediately upon receipt.
- C. Monthly listings of open items (liabilities) had not been prepared. As a result, the municipal court could not ensure the amounts held by the city for open bonds were sufficient to cover the liabilities. In May 2004, a listing of outstanding bonds was prepared by the Court Clerk, but it did not agree to the general ledger bonds payable account maintained by the City Clerk. A monthly listing of open items is necessary to ensure accountability over open cases and to ensure monies held in trust by the city for the municipal court are sufficient to meet liabilities.
- D. The court does not file a monthly report of all cases heard with the city. Section 479.080.3, RSMo 2000, requires the Court Clerk to prepare a monthly listing of all cases heard in court, including fines and court costs collected, to be verified by the Clerk or Municipal Judge and filed with the City Clerk.

WE RECOMMEND the Board of Aldermen work with the municipal court to:

- A. Adequately segregate the duties of receiving, recording, and transmitting court receipts. At a minimum, establish a documented periodic review of municipal court records by an independent person which includes reconciling the composition of court one-write receipts to the composition of transmittals to the city.
- B.1. Transmit receipts intact daily or when accumulated receipts exceed \$100.
2. Retain all copies of voided receipt slips.

3. Restrictively endorse all checks and money orders immediately upon receipt.
- C. Prepare monthly listings of open items and reconcile the listing to the monies held in trust by the city for the municipal court.
- D. Prepare monthly reports of cases heard in court and file these with the city in accordance with state law.

AUDITEE'S RESPONSE

The Board of Alderman indicated:

A-D. The city will do all it can to implement these recommendations, recognizing it is financially unable to hire additional office staff.

3. City Accounting Controls and Procedures

The City Clerk is primarily responsible for the maintenance of the city's financial records. Many significant problems were identified in the control procedures used by the City Clerk to account for city transactions, including the lack of appropriate reconciliations and untimely posting of city transactions. In addition, the Board of Aldermen do not always receive monthly financial reports. Other controls and procedures regarding designating an employee to serve as City Treasurer, outstanding checks, and restrictively endorsing checks and money orders immediately upon receipt have not been established by the city. As a result of these weaknesses, there is less assurance that all city monies have been accounted for properly.

- A. Bank reconciliations were not prepared for the city's seven bank accounts. The City Clerk indicated that she only performs a documented bank reconciliation for the city's general checking account; however, even for this account, as of December 2003 bank reconciliations had not been prepared since August 2003. In preparation for the city's financial statement audit, the City Clerk attempted to prepare a bank reconciliation for this account for September 2003. However, her bank reconciliation did not include a complete listing of outstanding checks and the "reconciled balance" was not agreed to the corresponding cash account in the city's general ledger. A complete understanding of the city's accounting system and reconciliation process appears lacking as unreconcilable differences have continually existed between the various bank account records and the general ledger accounts (see part B. below).

In addition, the city's independent audit for the year ended September 30, 2002, reported "numerous mistakes in the accounting records including unrecorded deposits, deposits or checks recorded in the wrong fund, unrecorded payrolls, bank balances incorrect, and general ledgers out of balance".

The independent auditor's engagement letter estimated audit fees of \$5,000 for the year ended September 30, 2002; however, the amount paid to the independent auditor for services related to that audit exceeded \$20,000. According to city personnel and invoices from the independent auditor, the additional amounts paid were primarily due to the independent auditor's performance of bank reconciliations for the twelve month period which was being audited. A similar situation exists for the city's independent financial statement audit of the city's fiscal year ended September 30, 2003.

Monthly bank reconciliations and comparisons to general ledger accounts are necessary to ensure accurate accounting and financial reporting and that any errors are detected and corrected on a timely basis. Performance of monthly bank reconciliations would also reduce the city's independent audit costs.

- B. An \$80,528 expenditure for the purchase of a police department building made on November 7, 2003 was not posted to the accounting records as of February 11, 2004. Numerous other instances were also noted in which city transactions were not posted to the accounting records in a timely manner. Such errors and inaccurate record keeping went undetected because the Board of Aldermen does not consistently receive a monthly financial report. While the board does receive a monthly accounts payable listing for their approval, other city financial reports are generally received only as requested.

To ensure all disbursements are accounted for properly, to avoid overspending, and to identify errors in a timely manner, all disbursements should be recorded in the appropriate accounting records as they occur. In addition, accurate monthly financial reports help ensure that all accounting records balance, transactions have been properly recorded, and any errors or discrepancies are detected on a timely basis. Without accurate financial information, the Board of Aldermen can not make informed decisions about the city's operations.

- C. The city has not currently designated an employee to serve as City Treasurer; however, the City Clerk primarily fulfills the duties of this position which include the responsibility for maintenance of the city's financial records.

Attorney General's Opinion No. 24, 1955 to Dodds, concluded that in a fourth-class city the holding of the positions of City Clerk, City Treasurer, and City Collector, or any two of these three offices, by the same person at the same time would be incompatible. This situation does not allow the segregation of duties necessary for a proper evaluation and review of financial transactions. The current procedures jeopardize the system of independent checks and balances intended by state law.

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that all transactions are accounted for properly and assets are adequately safeguarded. Internal controls could be improved by

segregating duties to the extent possible. If proper segregation of duties is not feasible, the Board of Aldermen should, at a minimum, require someone having no access to cash and no record keeping responsibilities receive and review the bank statements and bank reconciliations.

- D. Checks totaling \$183 written on the general checking account have been outstanding for more than one year. Outstanding checks should periodically be reviewed to determine if the payees can be readily located and if there is a need to reissue the checks. If the payees cannot be located, the amount should be disbursed to the state's Unclaimed Property Section as required by Section 447.595, RSMo 2000.
- E. Checks and money orders received are not restrictively endorsed until the deposit is prepared. To reduce the risk of loss or misuse of funds, checks and money orders should be restrictively endorsed immediately upon receipt.

WE RECOMMEND to the Board of Aldermen:

- A. Ensure city personnel prepare monthly bank reconciliations for all city accounts.
- B. Ensure all transactions are recorded in the accounting records as they occur and that monthly financial reports are prepared for their review.
- C. Designate a city employee to serve as the City Treasurer to provide for an adequate segregation of duties or the performance of independent reconciliations and reviews of the accounting records.
- D. Ensure old outstanding checks are reissued to any payees who can be located or dispose of these monies through the applicable statutory provisions.
- E. Ensure checks and money orders are restrictively endorsed immediately upon receipt.

AUDITEE'S RESPONSE

The Board of Alderman indicated:

A.-E. The city is in agreement with these recommendations and the city staff have or will implement them.

4. Utility System Controls and Procedures
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Many significant problems were identified in the control procedures used by the city related to the utility system. The city does not perform monthly reconciliations of total amounts billed, payments received, and amounts remaining unpaid. In addition, daily

reports of utility payments received were not always retained. There is also no independent approval of credit adjustments posted to the utility system, and the city does not monitor its water usage on a monthly basis. Further, the city has not performed a formal review of the water and sewer rates since 1996. As a result of these weaknesses, there is less assurance that all utility monies have been accounted for properly, water usage has been properly monitored, and that water and sewer user charges are set at the appropriate level to cover the cost of providing the related services.

The Utility Clerk is responsible for billing, collecting, and posting utility payments to the city's accounting software as well as generating monthly activity reports. The Maintenance Supervisor and his staff are responsible for reading customer meters and the meters at the city's two wells and monitoring the city's water usage.

- A. The city does not perform monthly reconciliations of total amounts billed, payments received, and amounts remaining unpaid for utility services including water, sewer, and trash. The city utilizes a computerized system to prepare bills and record payments of utility fees. Meter readings are recorded monthly by the maintenance department workers. The Utility Clerk then generates and mails the monthly utility bills, generates meter reading and billing reports, receives payments, records the payments on the system, and generates a delinquent listing. The utility system operating revenues were in excess of \$500,000 for the year ended September 30, 2002 according to the city's independent audit report.

For April 2003, we requested city personnel to perform a reconciliation of total amounts billed, payments received, and amounts remaining unpaid for utility services. City personnel were unable to complete the reconciliation because some of the daily reports of payments received had not been retained.

Monthly reconciliations are necessary to ensure that all accounting records balance, transactions have been properly recorded, and any errors or discrepancies are detected on a timely basis. Also, retention of records is necessary to ensure the validity of transactions, to provide an audit trail, and to account for all monies received.

- B. There is no independent approval of credit adjustments posted to the utility system. The Utility Clerk has the ability and authority to post credit adjustments to the computer system without obtaining independent approval. The city made multiple adjustments to sixteen different utility accounts for the month of April 2003. City personnel indicated that the primary reason for account adjustments was to correct errors made by the city.

To ensure that all credit adjustments are valid, someone independent of receipting and recording functions should review and approve all credit adjustments, and proper supporting documentation should be maintained of such adjustments.

- C. The city does not reconcile the total gallons of water billed to customers to the gallons of water pumped on a monthly basis. The Utility Clerk prepares a monthly billing report showing the number of gallons billed, and the Maintenance Supervisor records meter readings of the city's two water wells, so information is available to perform such reconciliations.

To help detect significant water loss on a timely basis and to help ensure all water usage is properly billed, the city should reconcile the total gallons of water pumped to the gallons of water billed on a monthly basis and investigate significant differences. The Public Service Commission generally recommends investigation if water usage not billed exceeds 15 percent.

- D. The city has not performed a formal review of the water and sewer rates since 1996. Water and sewer fees are user charges which should cover the cost of providing the related services, but rates should not be set at a level which results in excessive fund balances. The city should perform a detailed review of its water and sewer costs, including depreciation and debt service costs, and set rates to cover the total costs of operation.

WE RECOMMEND the Board of Aldermen:

- A. Ensure that monthly reconciliations of the amounts billed to amounts collected and delinquent accounts are performed. In addition, ensure adequate documentation to support reconciliations is retained.
- B. Require someone independent of the utility system review and approve all credit adjustments and ensure adequate documentation is retained of such adjustments.
- C. Ensure the gallons of water pumped is compared to the gallons billed on a monthly basis and investigate any significant differences.
- D. Review water and sewer rates periodically to ensure revenues are sufficient to cover all costs of providing this service, but not set at a level which results in excessive fund balances.

AUDITEE'S RESPONSE

The Board of Alderman indicated:

- A. *The city has implemented this procedure.*
- B. *The city will review this procedure, but does not deem it crucial at this time.*
- C. *The city is working on reinstating this procedure. There is a form available to the staff for this task.*

- D. *The revenue bond will be paid off July 1, 2004, and the board has addressed the need for a master sewer plan within the next budget year. The sewer system will be analyzed in order to establish a more correct sewer rate to ensure the sewer system is maintained properly for efficiency, but not over funded.*

5. Expenditures

Controls and procedures over city expenditures are in need of improvement. The city has contracted with their current independent auditor for several years without conducting a selection process, and bids were not always solicited by the city in accordance with their own procurement policy. Other controls and procedures including the proper authorization of city expenditures, the city's filing of Forms 1099 Miscellaneous with the Internal Revenue Service (IRS), and the city's procedures for entering into formal written agreements have either not been established, updated, or followed. The city has also spent approximately \$80,000 to implement a new meter reading system which was supposed to be in place by July 2002 which has yet to be implemented. Further, the city paid employee bonuses in violation of state law.

- A. The city has contracted for audit services with their current independent auditor for several years without conducting a selection process. The city paid the independent auditor more than \$20,000 for audit services for the year ended September 30, 2002. In addition, the city did not obtain an engagement letter from the independent auditor for the audit of the city's fiscal year ended September 30, 2003.

Selection processes are necessary to ensure the city is receiving the best services and rates. The process should include advertising and soliciting proposals and evaluating these proposals for technical experience, capacity and capability of performing the work within a desired time frame, past record of performance, and the firm's familiarity with the city. Information concerning the selection process should be documented and retained. In addition, the city should obtain and retain the engagement letter from the independent auditor.

- B. Although the city has an ordinance establishing a procurement policy which requires city officials to solicit bids for items or services costing more than \$3,000, bids were not solicited or bid documentation was not retained in accordance with the policy in the following instances:

<u>Item</u>	<u>Cost</u>
Touch read meter system	\$ 67,053
Lift station relocation	\$ 32,704
Comprehensive plan (formal plan for future street, water and sewer, and park projects)	\$ 22,050
TIF consulting services	\$ 18,000
Well maintenance service	\$ 4,954
Sewer pipe	\$ 4,628
Snow plow	\$ 3,416

Additionally, the city has not always documented the reason why the lowest bid was not accepted as required by city ordinance. For example, the vendor selected for services relating to the codification of city ordinances did not submit the lowest bid, and the city did not document the reason for selecting this vendor.

In addition to complying with city ordinances, competitive bidding helps ensure the city receives fair value by contracting with the lowest and best bidders. Bidding helps ensure all parties are given an equal opportunity to participate in the city's business. In addition, complete documentation should be maintained of all bids received. If other than the lowest bid is selected, the reasons should be adequately documented.

- C. City ordinance requires all expenditures greater than \$3,000 and less than \$100,000 to be authorized by the City Administrator; however, the position of City Administrator has been vacant since December 31, 2002, and city ordinances and procedures have not been updated. During our review of expenditures, we noted three purchases exceeding \$3,000 where documentation of authorization was not retained by the city. For example, authorization of video equipment for police cars totaling \$13,390, accounting software licensing and support fees totaling \$4,164, and a snow plow totaling \$3,416 was not documented or retained by the city.

The board should ensure that city ordinances address procedures that are applicable to the current personnel structure of the city for the authorization of all city expenditures. All purchases should then be approved in accordance with city policy and documentation of this approval retained.

- D. The city has no procedures in place to ensure Forms 1099 are always filed with the Internal Revenue Service (IRS) when required. As a result, the city did not file 1099s with the IRS for payments to vendors for attorney services and for relocating a pump station.

Sections 6041 through 6051 of the Internal Revenue Code require payments of \$600 or more for professional services or for services performed as a trade or business by non employees (other than corporations) be reported to the federal government on Forms 1099.

E. The city does not always enter into formal written agreements. For example:

1. The city was unable to produce documentation that a written contract existed with the consultant to whom they paid \$22,050 for services related to the development of a comprehensive plan which documented the city's future plans for street, water and sewer, and park projects.
2. City ordinance provides for the Building Inspector to receive a portion of the inspection fees charged by the city as compensation; however, the Building Inspector also bills the city for services that are not specifically outlined in the city's ordinance. The city has not entered into a written contract with the Building Inspector outlining his duties and any compensation that is not specifically addressed by ordinance.

Written contracts are necessary to document the duties and responsibilities of all parties and to prevent misunderstandings. In addition, Section 432.070, RSMo. 2000, requires all contracts of the city to be in writing.

F. The city has spent approximately \$80,000 to implement a new touch read meter system which the Maintenance Supervisor estimated would be in place by July 2002. This system is currently not in place or being utilized by the city. The city entered into a lease/purchase agreement for this system in January 2002, requiring three annual payments of \$22,351 beginning in February 2002. The city has incurred additional expenditures including software, licensing, equipment, and additional meters to implement this system. City personnel indicated that the system is not currently being used because the city is still in the process of replacing some of the old meters.

The board should review this situation and establish an implementation date. In the future, the board should also ensure a clear implementation plan exists for major expenditures to ensure city resources are being expended in a wise and prudent manner.

G. On December 16, 2002, the board approved a \$50 bonus for each city employee excluding the City Attorney and Municipal Judge. These bonuses totaled \$700. Bonuses given to employees appear to represent additional compensation for services previously rendered and, as such, are in violation of Article III, Section 39 of the Missouri Constitution and are contrary to Attorney General's Opinion No. 72, 1955 to Pray, which states, "...a government agency deriving its power and authority from the Constitution and laws of the state would be prohibited from granting extra compensation in the form of bonuses to public officers after the service has been rendered."

WE RECOMMEND the Board of Aldermen:

- A. Periodically solicit proposals for audit services.
- B. Ensure bids are solicited for all applicable purchases in accordance with city ordinances. In addition, documentation of the bidding process should be maintained including the reason for selecting other than the lowest bid as required by city ordinance.
- C. Develop procedures and update city ordinances to ensure the proper authorization of all disbursements.
- D. Ensure IRS 1099-MISC forms are prepared and submitted as required.
- E. Ensure all contracts are in writing.
- F. Review the purchase of the meter system and establish an implementation date. In the future, the board should ensure a clear implementation plan exists for major expenditures to ensure city resources are being expended in a wise and prudent manner.
- G. Discontinue the practice of granting additional compensation to employees.

AUDITEE'S RESPONSE

The Board of Alderman indicated:

- A. *The city agrees with this recommendation and will solicit bids for audit services for the coming budget year. The board will record in the minutes that a plan be implemented to solicit bids every three years.*
- B. *The city will implement this recommendation immediately.*
- C. *The city will implement this recommendation immediately.*
- D. *The city will implement this procedure.*
- E. *The city will investigate this recommendation.*
- F. *The city agrees this has been a slower process than anticipated, but the system will be completed by the end of this summer. One major problem with the system has been solving software issues.*
- G. *The city has discontinued this practice and will not implement it again.*

6.**Restricted Revenues**

- A. The city receives state motor vehicle-related revenues and deposits them into the General Fund. Article IV, Section 30 of the Missouri Constitution, requires that motor vehicle related revenues apportioned by the state of Missouri be expended for street-related purposes including policing, signing, lighting, and cleaning of roads and streets. The city has established a separate accounting for those revenues and for street expenditures; however, the city does not compare the street expenditures to the motor vehicle related revenues or maintain balances of motor vehicle related funds available.

To ensure compliance with the Missouri Constitution, the city should establish procedures to compare street expenditures to the motor vehicle related revenues and maintain balances of motor vehicle related funds available.

- B. Documentation does not exist to support the allocation of some expenditures to the city's funds. We noted the following examples:
1. The salaries and health insurance expenses of city employees are allocated to departments and funds of the city based on predetermined percentages rather than detailed records of actual time spent. Further, the allocation of health insurance expenses for city employees is not consistent with the allocation of their related salaries. For example, health insurance expenses for the City Administrator and City Clerk were only allocated to the general fund administration department while the related salaries were allocated among various city funds and departments.
 2. The cost of a snow plow for \$3,416 was allocated one-third each to the streets department, the water department, and the sewer department. The city had no documentation to support the reason for this allocation, and neither the City Clerk nor the Maintenance Supervisor could explain why this expenditure should have been paid from the water/sewer fund.

The funds of the city are established as separate accounting entities to account for specific activities of the city. Generally accepted accounting principles and various legal restrictions require revenues and expenses associated with specific activities be reflected in the fund established to account for those activities.

Reflecting revenues and expenses in the proper fund is also necessary to accurately determine the results of operations of specific activities, thus, enabling the city to establish the level of taxation and/or user charges necessary to meet all operating costs. User rates should be set to cover costs of producing and delivering the service and not to generate profits to subsidize other services provided by city government.

WE RECOMMEND the Board of Aldermen:

- A. Establish procedures to compare street expenditures to the motor vehicle related revenues and maintain balances of motor vehicle related funds available. In addition, ensure these revenues are used only for street-related purposes.
- B. Reflect revenues and expenses in the proper fund.

AUDITEE'S RESPONSE

The Board of Alderman indicated:

A&B. The city will implement these procedures.

7. Budgeting and Published Financial Statements
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The Board of Aldermen is responsible for preparing and approving a city budget which serves as a complete financial plan for the city. The city's budgets were not complete, and a budget amendment was made after expenditures had already exceeded the original budget. In addition, the city did not publish their financial statements semi-annually or in a timely manner, and the financial statements published failed to include the financial activity of the Water and Sewer Fund.

- A. City budgets did not include a budget message, actual (or estimated for the years not yet ended) revenues and expenditures for the two preceding budget years, or the beginning and the estimated ending available resources. The budget showed only anticipated revenue and expenditure activity.

Section 67.010, RSMo 2000, requires the preparation of an annual budget which shall present a complete financial plan for the ensuing budget year. A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific cost expectations for each area. A budget can also provide a means to effectively monitor actual costs by periodically comparing budgeted amounts to actual expenditures. A complete budget should include separate revenue and expenditure estimations, and include the beginning available resources and a reasonable estimate of the ending available resources. The budget should also include a budget message and comparisons of actual revenues and expenditures for the two preceding years.

- B. The Board of Aldermen approved a \$300,000 budget amendment on October 1, 2002, after the city's fiscal year had ended, to reflect unbudgeted expenditures made during the year ending September 30, 2002 related to a Community Development Block Grant. Prior to the amendment of the budget, expenditures had already exceeded the original budget. In addition, no other amendments were made prior to this date.

Amendments made after expenditures have exceeded the budget do not allow for the budget to be used as an effective management tool.

- C. The city only publishes its financial statements annually and only after receiving its independent audit. As a result, the financial statements are not published in accordance with state law or in a timely manner. For example, the financial statements for the year ended September 30, 2002 were not published until June 2003 and the financial statements for the year ended September 30, 2003 have still not been published. In addition, the published financial statements did not include the financial activity of the Water and Sewer Fund.

Section 79.160, RSMo 2000, requires the Board of Aldermen to prepare and publish financial statements within one month of the end of each six month period which include a full and detailed account of the receipts, expenditures, and indebtedness of the city. Complete, accurate, and detailed financial statements are necessary to keep the citizens informed of the financial activity and condition of the city. In addition, Section 79.165, RSMo 2000, states the city cannot legally disburse funds until the financial statements are published.

WE RECOMMEND the Board of Aldermen:

- A. Prepare budgets that contain all information as required by state law.
- B. Ensure budget amendments are made prior to incurring the actual expenditures.
- C. Publish timely semiannual financial statements which include all financial information as required by state law.

AUDITEE'S RESPONSE

The Board of Alderman indicated:

- A. *The city will re-implement this procedure to insure the city is in compliance with state statutes.*
- B. *The city anticipates this as a one-time occurrence because of the block grant.*
- C. *The city will comply with state laws and ensure statements are timely.*

In May 2003, the board discontinued maintaining minutes to document matters discussed in closed meetings. Prior to this date, it is questionable whether the city complied with the provisions of the Sunshine Law when discussing some items in closed session.

- A. The Board of Aldermen frequently held closed meetings. In May 2003, the board discontinued maintaining minutes to document matters discussed in closed meetings. As a result it is not known whether the final disposition of the board's decisions is made public. Section 610.021, RSMo 2000, requires certain matters discussed in closed session to be made public upon final disposition. In addition, closed session minutes are necessary to document and record official board decisions and actions affecting city government and the public, and to ensure compliance with the Sunshine Law. Although the Sunshine Law does not specifically require public bodies to keep minutes for closed meetings or sessions, the Attorney General's Sunshine Law booklet recommends public bodies document discussions during closed session to demonstrate, if necessary, the discussions were limited to the topics announced for the closed session. Further, the Sunshine Law requires certain decisions made during closed meetings/sessions related to legal, real estate, and personnel actions to be made public within specified timeframes. Public bodies would be in a better position to prove compliance with these provisions if they maintained minutes of closed meetings/sessions.
- B. It is questionable whether the city complied with the provisions of the Sunshine Law when discussing some items in closed session prior to May 2003. These included discussing changing the time municipal court is held from nighttime to daytime, and discussing reorganizing the maintenance supervisor's street and water departments. The board did not document how discussing these issues during closed sessions complied with state law. Section 610.022, RSMo 2000, requires that before any meeting may be closed, the question of holding the closed meeting and the reason for the closed meeting shall be voted on at an open session. In addition, this law provides that public governmental bodies shall not discuss any other business during the closed meeting that differs from the specific reasons used to justify such meeting, record, or vote. Section 610.021, RSMo 2000, also allows the board to discuss certain subjects in closed meetings including litigation; real estate transactions; bid specifications and sealed bids; personnel matters; and confidential or privileged communications with auditors. The board should restrict the discussion in closed sessions to the specific topics listed in Chapter 610 of the state statutes.

WE RECOMMEND the Board of Aldermen:

- A. Ensure minutes are prepared for all closed meetings, and the final disposition of applicable matters discussed at closed meetings is made public.

- B. Limit topics discussed in closed session to those specifically allowed by state law.

AUDITEE'S RESPONSE

The Board of Alderman indicated:

A&B. The city records closed session topics of the closed session, to insure that the meeting complies with the requirements of Chapter 610, and any votes taken during the closed session. Results of closed session votes are released within the time periods required by Chapter 610.

Section 610.022 RSMo. sets forth two methods by which a meeting may be closed. The board operates in full compliance with that statute in closing its meetings.

While there apparently were some problems with closed session meetings under a prior administration, those problems have been addressed and corrected as of May 2003. While the city agrees the State Auditor's office should review any questionable actions which may occur during the closed session, and which result in the expenditure of public funds, no such actions have taken place during this administration. Unless there is an issue relating to the expenditure of public funds, we do not believe the examination of closed session minutes is a function of any auditing process.

AUDITOR'S COMMENT

There was no evidence that the city maintained closed meeting minutes since May 2003. However, if maintained, such minutes would be subject to our review for audit purposes.

9. Personnel Policies and Procedures

The city has adopted a personnel policy manual which addresses, among other things, the city's policies for employee leave. As noted in the following two examples, the city has not always followed its own personnel policies regarding employee leave:

1. The city allowed the utility clerk to take personal leave with pay in violation of their own personnel policy. The city's personnel policy indicates that personal leave can not be used until the employee has worked for 180 days. The utility clerk was allowed to take 12 hours of personal leave with pay prior to having worked for the city 180 days. To ensure equitable treatment of all employees, the city should ensure personnel policies are followed.
2. The former City Administrator was paid vacation leave which exceeded the maximum amount allowed by the city's personnel policy. The former City Administrator terminated employment with the city December 31, 2002 and his final paycheck included 138 hours of vacation pay. The city's personnel policy indicates that a maximum of only 40 hours vacation leave can be carried over

from the previous year. Therefore, given that the maximum the City Administrator could have accrued for the current year was 60 hours, it appears the City Administrator was paid at least 38 hours in excess of the maximum allowed by city policy. There was no documentation that the City Administrator's timesheets were reviewed for accuracy and propriety or that leave balances were monitored by personnel independent of the City Administrator.

To ensure equitable treatment of all employees, the city should ensure personnel policies are followed. In addition, to ensure the propriety of all payroll expenses, procedures should exist to ensure any future city administrator's timesheets and leave records are reviewed by the board or other personnel independent of the city administrator.

WE RECOMMEND the Board of Aldermen ensure established personnel policies are followed. The board should also establish procedures to ensure any future city administrator's timesheets and leave records are reviewed by the board or other personnel independent of the city administrator.

AUDITEE'S RESPONSE

The Board of Alderman indicated the city is planning to implement this recommendation.

10.	Ordinances
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The city has not adopted ordinances to establish the compensation and duties of some city officials and employees. The city also has not fully complied with its own ordinance and state laws regarding the makeup of its Planning and Zoning Commission. In addition, the city has not complied with city ordinance number 376-99, which governs the fees the city charges to cover the costs to provide access to or furnish copies of public records.

- A. The city has not adopted ordinances to establish the compensation and duties of some city officials and employees. For example, no ordinance currently exists for the Court Clerk, Maintenance Supervisor, or the Chief of Police. Sections 79.270 and 79.290, RSMo 2000, require the compensation and duties of city officials and employees to be set by ordinance.
- B. The city has not fully complied with its own ordinance regarding the makeup of its Planning and Zoning Commission. The City Engineer, who is not a city resident, is serving as a voting member of the Planning and Zoning Commission; however, the city's planning and zoning commission manual, which is adopted by city ordinance, indicates that voting members must be residents of the city and any members of advisory committees will be non-voting.
- C. The city has not complied with city ordinance number 376-99, which governs the fees the city charges to cover the costs to provide access to or furnish copies of

public records. The city ordinance states that a minimum fee of \$1 per page for copies will be charged; however, the City Clerk indicated she typically charges fifteen cents per copy. In addition, the city's minimum fee of \$1 per page appears unreasonable given the typical costs of copies.

Since the ordinances represent legislation passed by the Board of Aldermen to govern the city and its residents, it is important that the city's ordinances be accurate, up-to-date, and enforced.

WE RECOMMEND the Board of Aldermen:

- A. Establish the duties and compensation of all city officials and employees by ordinance as required by statute.
- B. Ensure compliance with city ordinances relating to membership on the Planning and Zoning Commission.
- C. Review the current practice regarding public access to records and the related costs, and revise the policy as necessary.

AUDITEE'S RESPONSE

The Board of Alderman indicated:

- A. *While we believe the duties and powers of all persons associated with the city should be defined by ordinance, Section 79.290 does not require that the duties, powers or privileges of city employees be so defined. The difference between an "officer" and an "employee" should be noted.*
- B. *While the City agrees that it should revamp its zoning ordinances, it disagrees with any suggestion that these ordinances illegally, or improperly, give non-residence citizens the authority to vote on planning and zoning issues. The fact that the City's engineer is a voting member of the present Planning & Zoning Commission is due to the fact the City's corresponding ordinance has not been amended since Section 89.320 RSMo. The city will revise the current planning and zoning ordinance to allow the city engineer to serve as a voting member.*
- C. *Ordinance has been written for the board to approve to comply with this recommendation.*

11. Evidence and Seized Property Controls and Procedures

The police department maintains records and custody of evidence and seized property. During our review, we noted the following concerns relating to evidence and seized property:

- A. The police department attaches tags to evidence and seized property which identifies the item and documents the disposition of evidence and property seized; however, a complete control log of evidence and seized property is not maintained nor is an inventory periodically conducted.

A complete log of evidence and seized property should be maintained to ensure these items are adequately safeguarded. Periodically, an inventory should be taken of all the evidence and seized property and reconciled to the log.

- B. The city is holding over \$8,400 in a bank account which represents a \$7,770 seizure made by the Police Department in March 2000 plus interest that has accrued on these monies. Documentation from the County Prosecuting Attorney's Office indicated that forfeiture proceedings on this seized cash began in 2000. The city should follow up on the status of this case to determine the proper disposition of these funds.

WE RECOMMEND the Board of Aldermen:

- A. Require a complete log of all seized property be maintained. In addition, a periodic inventory should be taken and reconciled to the log.
- B. Determine the proper disposition of these seized monies.

AUDITEE'S RESPONSE

The Board of Alderman indicated:

- A. *The police department does have a list of property seized and evidence. However, the list does not cover items seized or evidence collected prior to November 2001. We will start to conduct an inventory of items prior to that date to have a complete list and keep it up to date.*
- B. *The \$8,400.00, which represented \$7,770.00 from a seizure made by the police department, has been civilly forfeited by the Greene County Prosecutors Office. The Chief of Police has made several calls to the Assistant Prosecuting Attorney in reference to this and has not gotten an answer for the disposition of the funds. He will keep trying to get an answer. Possibly if the City's Attorney was to call the Assistant Prosecuting Attorney, he would get an answer in a timely fashion.*

- A. The maintenance department does not maintain logs documenting usage and maintenance costs for its vehicles and equipment. The maintenance department maintains four pickup trucks, a dump truck, a sewer truck, a backhoe, a road grader, and a tractor.

Vehicle and equipment logs are necessary to document appropriate use and to support fuel charges. The logs should include the daily beginning and ending odometer readings or hours used as applicable, purpose of miles driven or hours used, and the operation and maintenance costs. These logs should be reviewed by a supervisor to ensure vehicles are used only for city business and help identify vehicles and equipment which should be replaced. Information on the logs should be reconciled to fuel purchases and other maintenance charges.

- B. All city employees have unlimited access to the city maintenance shop resulting in a lack of accountability over the city's assets. Additionally, given the poor controls over property records noted in MAR No. 13, the Board of Aldermen should evaluate their current policy of allowing all employees access to the maintenance shop. Upon determining which employees should be provided keys, written records of keys assigned to employees should be maintained.

WE RECOMMEND the Board of Aldermen:

- A. Ensure the maintenance department maintains logs documenting usage and maintenance costs for its vehicles and equipment. Also ensure periodic supervisory reviews of the logs are performed.
- B. Evaluate the current policy regarding employee access to the maintenance shop. Written records of keys assigned to employees should be maintained.

AUDITEE'S RESPONSE

The Board of Alderman indicated:

- A. *Sheets will be designed to record everything maintenance workers do. These sheets will include the cost of parts and the labor.*

All inventories will be tagged with an ID number and recorded on a spreadsheet on the computer.

A mileage log will be placed in each truck at the beginning of the week, and will be turned in to the Maintenance Supervisor at the end of the week. This log will record starting and ending miles for each day, date and amount of oil added, and date and amount of fuel bought.

B. The board will review employee access to the buildings.

13. Property Records

The city has not established records to account for all property owned by the city. Although the financial statements presented in the most recent CPA audit report showed \$308,434 in city assets, the city does not maintain adequate asset records of their own.

Property records should be maintained on a perpetual basis, accounting for property acquisitions and dispositions as they occur. The records should include a detailed description of the assets including the name, make and model numbers, asset identification numbers, the physical location of the assets, and the date and method of disposition of the assets. In addition, all property items should be identified with a tag or other similar device, and the city should conduct annual inventories.

WE RECOMMEND the Board of Aldermen ensure property records are maintained which include all pertinent information for each asset such as tag number, description, cost, acquisition date, location, and subsequent disposition. Additionally, the city should properly tag, number, or otherwise identify all applicable city property and conduct an annual inventory.

AUDITEE'S RESPONSE

The Board of Alderman indicated the city's inventory list is currently being updated to include the items recommended by the State Auditors.

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

CITY OF STRAFFORD, MISSOURI
HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

The city of Strafford is located in Greene County. The city was incorporated in 1964 as a fourth class city. The population of the city in 2000 was 1,845.

The city government consists of a mayor and six-member board of aldermen. The members are elected for two-year terms. The mayor is elected for a two-year term, presides over the board of aldermen, and votes only in the case of a tie. The Mayor, Board of Aldermen, and other principal officials during the year ended September 30, 2003, are identified below. The compensation of the elected officials is established by ordinance. The Mayor and each member of the Board of Aldermen are paid \$100 and \$50, respectively, for attendance at each regular board meeting with the stipulation that no one will receive more than two such payments in any calendar month.

Elected Officials	Date of Service
Barbara L. Helvey, Mayor	April 2003 to April 2005
Alan Baker, Mayor	April 2001 to April 2003
Christopher J. Clark, Alderman (1)	April 2002 to April 2004
Bryant Doss, Alderman	March 2002 to April 2005
John Vicat, Alderman	April 2003 to April 2005
Stephen D. Ruddell, Alderman	April 2001 to April 2003
Curtis Baker, Alderman (2)	May 2003 to April 2004
Barbara L. Helvey, Alderwoman	September 1997 to April 2003
Susan Krieger, Alderwoman	April 2003 to April 2005
Jack E. Mallot, Alderman	November 2002 to April 2003
J.R. Capps, Alderman (3)	April 2002 to April 2004

Other Principal Officials	Dates of service during the year ended September 30, 2003	Compensation Paid for the Year Ended September 30, 2003
Ronnie J. Carriger, City Administrator (4)	October to December 2002	\$ 15,104
Sharon D. Mickey, City Clerk	October to September 2003	26,454
Rochelle L. Zebell, Court Clerk	October to September 2003	19,692
Sammie K. Root, Utility Clerk	September 2003	858
M. Beth Miller, Utility Clerk	August to September 2003	1,379
Kristina M. Tindall, Utility Clerk	October to June 2003	14,741
David C. McIntosh, Maintenance Supervisor	October to September 2003	27,657
Justhan Webster, Chief of Police	October to September 2003	31,480
Jim Kelly, City Attorney	April 2003 to September 2003	7,412
Andrew Brown, City Prosecuting Attorney	April 2003 to September 2003	3,787
Brian D. Malkmus, City Attorney and Prosecuting Attorney	October to April 2003	8,478
Shannon Gamble, Municipal Judge	October to September 2003	9,471

- (1) Peggy Triplett was elected alderwoman in April 2004.
- (2) Myrl "Sandy" Bowler was elected alderman in April 2004.
- (3) J.R. Capps was reelected alderman in April 2004.
- (4) Resigned on December 31, 2002. A replacement was not hired.

In addition to the officials identified above, the city employed 7 full-time employees and 1 part-time employee on September 30, 2003.

Assessed valuations and tax rates for 2003 were as follows:

ASSESSED VALUATION*

Real estate	\$ 14,903,080
Railroad and utility	829,311
Total	<u>\$ 15,732,391</u>

*Taxes are not levied on Personal Property Assessed Valuation of approximately \$4.3 million.

TAX RATES PER \$100 ASSESSED VALUATION

	Rate	Expiration Date
General Fund	\$.4086	None

The city has the following sales taxes; the rates are per \$1 of retail sales:

	Rate	Expiration Date
General	\$.0100	None
Capital improvement	.0050	2006